

Message Text

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C O N F I D E N T I A L STATE 110866

USOECD

E.O. 11652:N/A

TAGS: EFIN, EAID, OECD, TU

SUBJECT: OECD CONSORTIUM FOR TURKEY, INFORMAL MEETING ON
APRIL 28, 1978

REF: STATE 100179, PARIS 11917

1. SUMMARY. OECD CONSORTIUM MET INFORMALLY ON APRIL 28
WITHOUT TURKISH DELEGATION AND AGREED TO FORM AN AD HOC
GROUP OF THE CONSORTIUM, BY THE GOVERNMENT OF FRANCE, TO
NEGOTIATE AND CONCLUDE AN AGREEMENT FOR THE RESTRUCTURING
OF TURKISH DEBTS OWED TO OR GUARANTEED BY OFFICIAL
CREDITORS. AD HOC WOULD FOLLOW ESTABLISHED CREDITOR CLUB
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PROCEDURES. FIRST FORMAL CONSORTIUM TO BE MAY 17 TO
ESTABLISH THE AD HOC GROUP. AD HOC GROUP IS EXPECTED TO
MEET AND CONCLUDE ITS WORK ON MAY 18TH AND 19TH. END
SUMMARY.

2. INFORMAL CONSORTIUM MEETING WAS PROCEDED BY MEETING ON
APRIL 27 OF NINE CREDITOR COUNTRIES (BELGIUM, CANADA, FRG,

FRANCE, JAPAN, NETHERLANDS, SWITZERLAND, U.K. AND U.S.). THE MEETING WAS HELD AT THE SUGGESTION OF THE UNITED STATES TO SOLIDIFY A CONSENSUS ON THE OBJECTIVES TO BE ACHIEVED IN THE MEETING ON 28TH AS WELL AS TO EXCHANGE VIEWS ON ISSUES. THIS MEETING WAS CHAIRED BY Mlle. CHEYVIALLE OF FRANCE. IN

THIS MEETING, ALL DELEGATIONS AGREED THAT SITUATION OF TURKEY WARRANTED REORGANIZATION OF OFFICIAL CREDITS, AND MOST EXPRESSED THEIR PREFERENCE FOR NEGOTIATING SUCH A REORGANIZATION IN THE PARIS CLUB. DELEGATIONS FROM FRANCE AND U.K. WERE MOST FORCEFUL IN SUPPORT OF THIS APPROACH. U.S. DELEGATION STATED THAT IT SHARED THIS OPINION BUT WAS WILLING TO NEGOTIATE IN AN AD HOC GROUP OF THE OECD CONSORTIUM GIVEN THE ADAMANT OPPOSITION AT THE GOT TO A PARIS CLUB VENUE. GERMAN DELEGATION SUPPORTED THE U.S. POSITION. BELGIUM, JAPAN AND NETHERLANDS HAD NO DIPLOMATIC ORDERS. NO AGREED POSITION WAS REACHED.

3. HOWEVER, CHAIRMANSHIP OF AD HOC GROUP, PROCEDURES TO BE FOLLOWED BY GROUP, ITS RELATIONSHIP TO THE FULL CONSORTIUM, AND TIMETABLE WERE DISCUSSED EXTENSIVELY IN NINE-COUNTRY CAUCUS. THERE WAS STRONG SUPPORT FOR FRENCH CHAIRMAN, AND STRICT PARIS CLUB TYPE PROCEDURES. DELEGATIONS WERE GENERALLY IN SYMPATHY WITH POINT THAT AD HOC GROUP SHOULD FUNCTION INDEPENDENTLY AND THAT APPEAL TO FULL CONSORTIUM SHOULD BE PRECLUDED. NO OBJECTION TO A MID-MAY NEGOTIATION

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WERE RAISED.

4. U.S. DELEGATION ATTEMPTED TO STIMULATE DISCUSSION OF LONGER TERM ROLE OF OECD CONSORTIUM FOR TURKEY IN NINE-COUNTRY CAUCUS, BUT OTHER DELEGATIONS WERE NOT PREPARED TO DISCUSS THIS MATTER. U.S. DELEGATE (MEISSNER) LAID OUT POSSIBLE SCENARIO THROUGH THE FALL WHICH WOULD HAVE THE OBJECTIVE OF PROVIDING PSYCHOLOGICAL SUPPORT FOR THE ECONOMIC POLICIES OF GOT. A GREAT DEAL OF SKEPTICISM PREVAILED. U.K. DELEGATE, BULL OF BANK OF ENGLAND, SAID PRIVATELY THAT ONLY THING THAT WILL HELP GOT IS PROVEN PERFORMANCE. THERE EXISTED IN COMMENT THROUGHOUT THE MEETING AN OVERTONE OF DISTRUST OF THE TURKS. NUMEROUS TIMES THEY WERE REFERRED TO AS EXTREMELY HARD BARGAINERS WHO WOULD TAKE ADVANTAGE OF EVERY WEAKNESS AND DEMAND OUTRAGEOUS SOLUTIONS. U.K. WAS STRONGEST ON THIS POINT AND URGED EXTREMELY HARDLINE. U.S. ARGUED FOR COMPROMISE ON VENUE ON RATIONALE THAT POLITICAL CAPITAL WITH GOT SHOULD NOT BE CONSUMED ON ISSUES OF FORMAT, WHERE CREDITORS HAD FLEXIBILITY, BUT SHOULD BE PRESERVED FOR ISSUES OF SUBSTANCE OF NEGOTIATION.

5. INFORMAL CONSORTIUM MEETING ON APRIL 28 CHAIRED BY CHAIRMAN GIEL. IMF REPRESENTATIVE (WOODWARD) SUMMARIZED NATURE OF STANDBY ARRANGEMENTS. CONSORTIUM SECRETARIAT (KUEHN) DESCRIBED STATUS OF GOT NEGOTIATIONS WITH PRIVATE BANKS. OECD SECRETARIAT (WOOTTON) PROPOSED THAT CONSORTIUM ESTABLISH AN AD HOC GROUP WITH A MANDATE TO CONCLUDE AN AGREEMENT FOR REORGANIZING TURKISH DEBT TO OFFICIAL

CREDITORS, THAT THIS GROUP MEET ON MAY 17/18, AND THAT THE FULL CONSORTIUM MEET ON MAY 19 TO TAKE NOTE OF THE GROUP'S CONCLUSIONS AND BEGIN PROCESS OF ADDRESSING TURKEY'S LONG-TERM PROBLEM.

6. MORNING SESSION OF APRIL 28 MEETING FOCUSED ON ISSUE OF CONFIDENTIAL

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SETTING UP AN AD HOC GROUP. FRENCH DELEGATION REFERRED TO RESOLUTION OF MARCH MINISTERIAL OF UNCTAD TDB AND STRESSED THAT NEGOTIATIONS OUTSIDE OF CREDITOR CLUB COULD WEAKEN POSITION OECD COUNTRIES HAVE TAKEN IN NEGOTIATIONS WITH G-77, AND POSITION LIKELY TO BE TAKEN DURING YEAR LEADING UP TO UNCTAD V. GOF DELEGATE ADVOCATED NO DIFFERENT TREATMENT FOR GOT THAN FOR ANY OTHER COUNTRY IN AN ACUTE DEBT CRISIS SITUATION. U.S. INTERVENED IN SUPPORT OF WOOTTON'S PROPOSAL BUT ADDED THAT FORMAL MEETING OF CONSORTIUM WAS NECESSARY TO ESTABLISH THE AD HOC GROUP. DELEGATIONS FROM BELGIUM, CANADA, DENMARK AND U.K. GAVE PARTICULARLY STRONG SUPPORT TO THE FRENCH POSITION. DELEGATIONS FROM AUSTRIA, GERMANY, NORWAY, SWEDEN, SWITZERLAND, EXPRESSED SUPPORT FOR WOOTTON'S PROPOSAL TO ESTABLISH THE AD HOC GROUP. POSSIBILITY OF INFORMING GOT OF DELEGATIONS' PREFERENCE FOR NEGOTIATIONS IN PARIS CLUB AND FALLING BACK TO AD HOC GROUP IN EVENT OF ADAMANT GOT OPPOSITION WAS DISCUSSED AND REJECTED BECAUSE GOT WOULD QUICKLY LEARN OF THE TACTIC. LUNCH BREAK ALLOWED COMPROMISE TO BE STRUCK BETWEEN FRENCH, BRITISH AND CANADIANS ON ONE SIDE AND AMERICANS AND GERMANS ON THE OTHER. AD HOC GROUP WOULD BE FORMED BUT UNDER FRENCH CHAIR AND WITH CREDITOR CLUB PRECEDURES.

7. DELEGATIONS RETURNED FROM LUNCH BREAK TO DISCUSS ISSUE OF AD HOC GROUP, ITS CHAIR AND ITS MANDATE. AFTER MUCH DRIFT AND AIMLESS DISCUSSION, THE LUNCH BREAK COMPROMISE WAS ACCEPTED AS THE CONSENSUS OF THE INFORMAL GROUP. ATTENTION THEN TURNED TO A MANDATE DRAFTED BY THE SECRETARIAT WHICH ALL MAJOR CREDITORS FOUND UNACCEPTABLE. ON U.S. SUGGESTION THE MEETING RECESSED FOR A SHORT CORNER DRAFTING SESSION ATTENDED BY U.S., U.K., FRANCE, CANADA, AND GERMANY. OTHERS WERE PRESENT BUT DIDN'T SPEAK. CONFIDENTIAL

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AT U.S. SUGGESTION FINAL TEXT AS ACCEPTED BY INFORMAL GROUP WOULD BE GIVEN ONLY DRAFT STATUS FOR FOUR REASONS. FIRST, INFORMAL GROUP WAS NOT THE CONSORTIUM AND COULDN'T ACCEPT THE MANDATE AS FINAL. SECONDLY, THE MANDATE AS DRAFTED ASSUMES AN ACTION BY THE TURKISH GOVERNMENT (SECOND PREAMBULAR PARAGRAPH) WHICH MIGHT NEED CORRECTING. THIRD, THE TURKISH GOVERNMENT MAY WELL HAVE COMMENTS THAT MIGHT BE GERMANE AND FOURTHLY, IF THE DOCUMENT LEAKED IT COULD BE DISCOUNTED AS A DRAFT. MANDATE WAS ACCEPTED BY DELEGATIONS AS THE DRAFT TO BE CONSIDERED BY FULL CONSORTIUM AT MEETING TO BE HELD ON MAY 17.

8. TEXT OF DRAFT MANDATE FOR AD HOC GROUP FOLLOWS:

BEGIN TEXT

AD HOC GROUP ON TURKEY'S FOREIGN DEBT

THE MEMBERS OF THE CONSORTIUM

- RECOGNIZING TURKEY'S FOREIGN DEBT SITUATION AND ACUTE BALANCE-OF-PAYMENTS DIFFICULTIES,
- HAVING REGARD TO THE TURKISH AUTHORITIES' REQUEST TO THE OECD TO CONSIDER RESTRUCTURING THEIR FOREIGN DEBT,

DECIDE

TO ESTABLISH AN AD HOC GROUP, OPEN TO ALL OECD MEMBER COUNTRIES, UNDER THE CHAIRMANSHIP OF FRANCE, TO CONSIDER TURKEY'S FOREIGN DEBT WITH THE OBJECTIVE OF NEGOTIATING AND CONCLUDING A MUTUALLY ACCEPTABLE AGREEMENT UNDER ESTABLISHED CREDITOR CLUB PROCEDURES.

END TEXT.

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9. THE TEXT HAS A NUMBER OF SUBTLETIES THAT REFLECT ITS FRAGILE NATURE AND THE DIFFICULTIES IN CONSTRUCTING IT. FIRST IT SHOULD BE NOTED THAT THE MEMBERS OF THE CONSORTIUM AND NOT THE CONSORTIUM ITSELF THAT ARE MAKING THIS DECISION. THIS IS A DECISION OF INDIVIDUAL COUNTRIES. SECONDLY, THE APPEARANCE OF THE WORD "ACUTE" IN THE FIRST PREAMBULAR PARAGRAPH TIES THE TURKISH SITUATION TO THE

FIRST HALF OF THE U.S./EC DEBT FEATURES PAPER. THIRD, THE SECOND PREAMBULAR PARAGRAPH RECOGNIZES THE AGREED POSITION IN THE UNCTAD DEBT MINISTERIAL OF MARCH 1978 THAT DEBT RESCHEDULING ARE DONE ONLY AT THE REQUEST OF THE DEBTOR COUNTRY. FOURTH, IN THE DECISION, A NEW AND SEPARATE GROUP IS ESTABLISHED TO DEAL WITH TURKEY'S FOREIGN DEBT. THE IDEA OF DISGUIISING THE ACTION UNDER AN OLD FINANCIAL SUBCOMMITTEE WAS REJECTED. FIFTH, THE PHRASE THAT THE AD HOC GROUP IS OPEN TO ALL OECD MEMBERS MEANS THAT JAPAN MAY JOIN EVEN THOUGH IT IS NOT A CONSORTIUM MEMBER. SIXTH, THE WORD CONCLUDING IN THE PHRASE "NEGOTIATING AND INCLUDING" MEANS THAT THERE IS NO APPEAL OF THE AD HOC GROUP'S NEGOTIATIONS TO THE FULL CONSORTIUM. SEVENTH, THE PHRASES "UNDER THE CHAIRMANSHIP OF FRANCE" AND " UNDER ESTABLISHED CREDITOR CLUB RULES" MAKE QUITE BLATANT THE FRENCH, BRITISH, AND CANADIAN POSITIONS. U.S. OBJECTED TO CHAIR-

MANSHIP CLAUSE ON THE BASIS THAT IT TOO DIRECTLY PIERCED THE VEIL OF THE CONSORTIUM COVERING A PARIS CLUB MECHANISM AND COULD EASILY BE AN UNDERSTANDING ASSUMED UNDER THE "CREDITOR CLUB'S PROCEDURE" PHRASE. FRENCH WANTED FORMALLY TO BE NAMED AND U.K. WANTED TO BE EXPLICIT AS POSSIBLE ON ALL POINTS REFLECTING THEIR FEARS OF A HARD BARGAINING GOT. THE CREDITOR CLUB PHRASE ALSO MEANS THAT NEGOTIATIONS WILL BE OVER GOVERNMENT OWED OR GOVERNMENT GUARANTEED OEBT WITH CAVEATS AS NOTED IN NEXT PARAGRAPH. CONFIDENTIAL

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10. TWO CAVEATS WERE MADE TO THE PHRASE "ESTABLISHED PARIS CLUB PROCEDURES." THE CANADIAN DELEGATION MADE THE FORMAL INTERVENTION THAT HIS COUNTRY WAS ONLY AGREEING WITH THE CONSENSUS ON THE UNDERSTANDING THAT THE PHRASE DID NOT PRECLUDE THE POSSIBILITY OF RESCHEDULING DEBTS OF LESS THAN ONE YEAR. THERE WAS NO DISAGREEMENT WITH THIS STATEMENT ALTHOUGH THE FRENCH DELEGATION MOANED AUDIBLY, THEY BEING A LARGE SHORT TERM CREDITOR. THE U.K. IN THE CORNER DRAFTING GROUP MADE WELL KNOWN ITS DESIRE TO HAVE THE NEGOTIATIONS CONSIDER DEBT OTHER THAN GOVERNMENT OWED AND GOVERNMENT GUARANTEED. THEY WILL INTERPRET THE DECISION PHRASE "TO CONSIDER TURKEY'S FOREIGN DEBT" TO INCLUDE CERTAIN PRIVATE SECTOR DEBTS. THEY MADE NO FORMAL INTERPRETIVE INTERVENTION BUT SOME AMBIGUITY WILL EXIST BETWEEN THEIR INTERPRETATION OF "FOREIGN DEBT" AND THE "ESTABLISHED CREDITOR CLUB PROCEDURES" PHRASE WHICH WOULD NOT INCLUDE UNGUARANTEED PRIVATE SECTOR DEBT.

11. THERE WAS AN ATTEMPT BY IMF REPRESENTATIVE WOODWARD TO INSERT IN THE PREAMBULAR LANGUAGE THE FOLLOWING PHRASE "--HAVING REGARD ALSO TO THE POLICY UNDERSTANDINGS REACHED

WITH THE IMF." THE SUGGESTION WAS STRONGLY SECONDED BY CHAIRMAN GIEL AND LATER DEFENDED RATHER ADAMANTLY BY SECRETARIAT STAFF KOEHN. THE US DELEGATE SPOKE AGAINST THE IDEA ON THE FOLLOWING GROUNDS: ONE, THAT AD HOC GROUP MIGHT LAST MUCH LONGER THAN THE UNDERSTANDINGS THEREBY RISKING A DATED OR EVEN POSSIBLY EMBARRASSING STATEMENT IN THE MANDATE; TWO, THAT THE MEMBERS OF THE CONSORTIUM HAD PASSED FORMALLY ON THESE UNDERSTANDINGS AT THE IMF ON APRIL 24 AND A SECOND PASSAGE WAS NOT NECESSARY; THIRD, THE IMF UNDERSTANDINGS WOULD SURELY BE MENTIONED IN THE NEGOTIATED DOCUMENT AND THEREFORE NEED NOT BE MENTIONED IN THE PUBLIC MANDATE; AND FOURTH, THAT LINKING THE OECD AND THE IMF PUBLICALLY CARRIED THE CONNOTATION THAT THE OECD WAS ATTEMPTING TO PLACE CONDITIONS ON A MEMBER COUNTRY. CONFIDENTIAL

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NO OTHER COUNTRY OBJECTED AND BELGIUM SUPPORTED THE CHAIR BUT WOULD NOT DO SO IF CONSENSUS WAS NOT IN SUPPORT. THE CHAIR CONTINUED TO PUSH THE ISSUE AND THE U.S. TOOK A FORMAL RESERVATION. UK AND FRANCE SUPPORTED PRIVATELY BUT DID NOT INTERVENE THINKING U.S. RESERVATION KILLED THE IDEA. AT TERMINATION OF MEETING U.S. DELEGATION WAS INFORMED THAT CHAIR HAD RULED THAT THE IMF PHRASING WAS TO BE INCLUDED. A STRONG PRESENTATION WAS MADE TO THE CHAIR AFTER THE MEETING WITH FRANCE AND THE UK DOING LIKEWISE. BOTH GIEL AND KOEHN INSISTED IT WAS NOW TOO LATE AND NO CHANGE COULD BE MADE. THE SITUATION WAS DEFINITELY ONE OF THE INTERNATIONAL BUREAUCRATS AGAINST THE MEMBER GOVERNMENTS. CHARLES WOOTTON, DEPUTY SECRETARY GENERAL, SPOKE WITH MINISTER KORP LATER FRIDAY EVENING, AND SAID IMF

PHRASING WOULD NOT APPEAR IN THE DRAFT MANDATE. TEXT IN PARAGRAPH 8 REFLECTS THIS CONVERSATION.

12. A SIMILAR INCIDENT OF A OBSTREPEROUS CHAIR OCCURRED IN THE MANDATE DEBATE OVER THE PHRASE "UNDER ESTABLISHED CREDITOR CLUB PROCEDURES." GIEL DID NOT WISH TO ACCEPT THE GROUP CONSENSUS BECAUSE HE KNEW THE PHRASE WOULD SERIOUSLY UPSET THE GOT. HE SUGGESTED NUMEROUS REPHRASINGS, NONE OF WHICH WERE ACCEPTED BY THE GROUP. FINALLY, THE US DELEGATE INTERVENED SAYING HE BELIEVED THE ARGUMENTS BEING MADE IN OPPOSITION TO THE PHRASE COULD BEST BE MADE BY THE GOT ON MAY 17. GIEL LATER APOLOGIZED TO THE MEETINGS ON HIS STRONG ADVOCACY OF TURKISH POSITIONS, EXPLAINING THAT HE FELT IT PART OF HIS JOB TO PROVIDE A BRIDGE OF UNDERSTANDING AND THAT HE REPRESENTED THE VIEWS OF OTHER CONSORTIUM MEMBERS WHEN HE SPOKE WITH THE GOT.

13. THE FRENCH MAY ASK FOR INFORMAL MEETING OF MAJOR CONFIDENTIAL

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CREDITORS ON MAY 16 TO DETERMINE WHAT FLEXIBILITY IN POSITIONS MAY BE POSSIBLE ON DEBT RESCHEDULING. DELEGATIONS AGREED THAT FULL CONSORTIUM MEETING ON MAY 17 SHOULD BE CONCLUDED IN MORNING TO ALLOW AD HOC GROUP TO HOLD FIRST SESSION IN AFTERNOON. HOWEVER, DELEGATIONS ALSO AGREED TO LEAVE DETAILS OF THESE ARRANGEMENTS TO BE DECIDED BY CONSORTIUM CHAIRMAN AND CHAIRMAN OF AD HOC GROUP. CONSORTIUM CHAIRMAN PROPOSED FULL CONSORTIUM MEETING A COUPLE OF WEEKS LATER TO RECEIVE REPORT OF NEGOTIATIONS, BUT HIS PROPOSAL WAS NOT ACCEPTED. IN GENERAL, DELEGATIONS OPPOSED IDEA OF HAVING THE AD HOC GROUP REPORT BACK TO ANY BODY. HOWEVER, WOOTTON STATED THAT IT IS NECESSARY IN THE OECD THAT SUBGROUPS OF ANY KIND MUST REPORT BACK TO THE FULL GROUP (I.E. CONSORTIUM). HE SAID THE FULL GROUP ONLY HAS TO TAKE NOTE OF THE ACTION. THIS FORMULATION SEEMED GENERALLY ACCEPTABLE. CONSENSUS WAS NOT CLEAR ON WHEN SESSION WOULD BE HELD BUT U.S. EXPRESSED VIEW THAT IT SHOULD BE DONE IMMEDIATELY AFTER THE CONCLUSION OF NEGOTIATIONS IN THE SUBGROUP, PREFERABLY MAY 19 OR 20.

14. NO DISCUSSION TOOK PLACE IN APRIL 28 MEETING ON SUBJECT OF LONG TERM ROLE OF OECD CONSORTIUM.

15. KORP, IN TELCON TO MEISSNER IN WASHINGTON ON SUNDAY, APRIL 30, RELAYED CONTENT OF SECOND DISCUSSION WITH WOOTTON. WOOTTON SAID THAT INITIAL TURKISH REACTION TO DRAFT MANDATE WAS THAT IT WAS UNACCEPTABLE. THEY WERE SO DISTURBED, ACCORDING TO WOOTTON, THAT THEY WERE GOING TO HAVE FINANCE MINISTER MUEZZINGLU BRING THE ISSUE UP IN BILATERALS AT THE IMF MEETINGS IN MEXICO CITY. GOT

SPECIFICALLY REJECTED THE FRENCH CHAIRMANSHIP AND THE REFERENCE TO CREDITOR CLUB PROCEDURES. AS OF FRIDAY AFTERNOON, THE FRENCH AND BRITISH DELEGATIONS CONSIDERED THE DRAFT MANDATE NON-NEGOTIABLE.

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16. NORWEGIANS ANNOUNCED THAT THEY WERE CANCELING 17 MILLION KRONER OF PRINCIPAL ON OLD AID DEBTS WITH TURKEY AND EXTENDING NEW EXPORT CREDITS. NEWS WAS TAKEN IN TOTAL SILENCE BY OTHER DELEGATIONS. ALSO NORWEGIANS OPENING BILATERAL COMMISSION WITH TURKEY TO PROMOTE COMMERCIAL CONTACT. FIRST MEETING WILL BE IN EARLY JUNE.

17. COMMENTS: WORK WITH OTHER DELEGATIONS WENT VERY WELL. OTHER MAJOR CREDITORS ALL PROVIDED DEBT EXPERTS WHO HAD WORKED TOGETHER IN PREVIOUS PARIS CLUBS, UNCTAD, OR BOTH. MAJOR PROBLEMS EXISTED WITH DELEGATIONS REPRESENTED FROM OECD MISSIONS WHO KNEW LITTLE OR NOTHING OF DEBT RENEGOTIATIONS, PARIS CLUB, OR UNCTAD. TYPICAL OF THIS BREED WERE THE BELGIAN AND DUTCH REPRESENTATIVES WHO, HEARING OF OUR APRIL 26 CAUCUS OF MAJOR CREDITORS, INSISTED THAT THEY MUST BE INCLUDED. THEY ARRIVED WITHOUT POSITIONS AND WITHOUT KNOWLEDGE BUT WITH NUMEROUS PERSONAL OBSERVATIONS THAT DESTROYED CONSENSUS AND THE CONTINUITY OF DISCUSSIONS. ADDRESSEES SHOULD ENCOURAGE OTHER GOVERNMENTS TO SEND FINANCIAL EXPERTS TO MAY MEETING IF EXPERTISE DOES NOT EXIST IN THEIR OECD MISSIONS.

18. A MORE SERIOUS PROBLEM IS CHAIRMAN GIEL. ASIDE FROM SUFFERING FROM "CLIENTITIS" HE RAN AN EXTREMELY POOR MEETING. HE WAS UNABLE TO GUIDE THE WORK OF THE COMMITTEE AND CONSTANTLY FAILED TO UNDERSTAND WHEN DEBATE HAD ENDED AND A SUMMARY WAS NEEDED. AS A RESULT CONSENSUS WAS EXTREMELY DIFFICULT TO REACH AND VERY LONG IN COMING. IN HIS OPENING REMARKS HE PUBLICALLY CITED THE MAJOR CREDITOR CAUCUS OF THE PREVIOUS DAY AND ASKED WHAT DECISIONS MIGHT HAVE BEEN REACHED. THE COMMENT NEEDLESSLY EMBARRASSED THOSE WHO ATTENDED AND MADE OTHERS BELIEVE THEY HAD BEEN EXCLUDED FROM SOME SPECIAL MEETING. AFTER FRIDAY'S MEETING ALL
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MAJOR DELEGATIONS WERE RELIEVED THAT THE DEBT RESCHEDULING EXERCISE WAS TO BE IN THE HANDS OF ANOTHER CHAIR. THE PROBLEM STILL REMAINS WHETHER GIEL HAS THE CAPACITY TO HANDLE THE VERY SENSITIVE AND CRITICAL SCENARIO OF PSYCHOLOGICAL CONFIDENCE BUILDING THE CONSORTIUM MUST TAKE THIS FALL. HIS TERM OF OFFICE EXPIRES IN SEPTEMBER. WHETHER HE CONTINUES SHOULD BE A MATTER OF THOUGHTFUL REVIEW.

19. FOR PARIS: FRENCH DELEGATION INFORMED US THAT FRENCH CHAIR FOR AD HOC GROUP WILL BE M.CANDESSUS, DIRECTOR OF

FINANCE. M. PEBERAU HAS BEEN PROMOTED TO DIRECTEUR DE CABINET TO NEW ECONOMICS MINISTER AND WILL NOT BE AVAILABLE. HE WILL NOT BE IMMEDIATELY REPLACED IF AT ALL. M. CANDESSUS WILL BECOME THE HEAD OF THE INTERNATIONAL SECTION OF THE ECONOMIC MINISTRY AND THE PRESENT INCUMBENT WILL REPLACE LARROSIER WHEN HE DEPARTS FOR HIS IMF POSITION THIS SUMMER. WITH THE EXCEPTION OF THE PEBEREAU APPOINTMENT, THESE SHIFTS ARE NOT PUBLICALLY KNOWN AND SHOULD NOT BE DISCLOSED. THE CANDESSUS CHAIRMANSHIP MEANS A RANK UP GRADING TO THE ROUGH EQUIVALENT OF AN ASSISTANT SECRETARY LEVEL. THIS WILL ALSO HOLD TRUE FOR FUTURE PARIS CLUB

MEETINGS. PAST CHAIRMEN WERE AT DEPUTY ASST-SECRETARY
LEVEL. CHRISTOPHER

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6. MORNING SESSION OF APRIL 28 MEETING FOCUSED ON ISSUE OF SETTING UP AN AD HOC GROUP. FRENCH DELEGATION REFERRED TO RESOLUTION OF MARCH MINISTERIAL OF UNCTAD TDB AND STRESSED THAT NEGOTIATIONS OUTSIDE OF CREDITOR CLUB COULD WEAKEN POSITION OECD COUNTRIES HAVE TAKEN IN NEGOTIATIONS WITH G-77, AND POSITION LIKELY TO BE TAKEN DURING YEAR LEADING UP TO UNCTAD V. GOF DELEGATE ADVOCATED NO DIFFERENT TREATMENT FOR GOT THAN FOR ANY OTHER COUNTRY IN AN ACUTE DEBT CRISIS SITUATION. U.S. INTERVENED IN SUPPORT OF WOOTTON'S PROPOSAL BUT ADDED THAT FORMAL MEETING OF CONSORTIUM WAS NECESSARY TO ESTABLISH THE AD HOC GROUP. DELEGATIONS FROM BELGIUM, CANADA, DENMARK AND U.K. GAVE PARTICULARLY STRONG SUPPORT TO THE FRENCH POSITION. DELEGATIONS FROM AUSTRIA, GERMANY, NORWAY, SWEDEN, SWITZERLAND, EXPRESSED SUPPORT FOR WOOTTON'S PROPOSAL TO ESTABLISH THE AD HOC GROUP. POSSIBILITY OF INFORMING GOT OF DELEGATIONS' PREFERENCE FOR NEGOTIATIONS IN PARIS CLUB AND FALLING BACK TO AD HOC GROUP IN EVENT OF ADAMANT GOT OPPOSITION WAS DISCUSSED AND REJECTED BECAUSE GOT WOULD QUICKLY LEARN OF THE TACTIC. LUNCH BREAK ALLOWED COMPROMISE TO BE STRUCK BETWEEN FRENCH, BRITISH AND CANADIANS ON ONE SIDE AND AMERICANS AND GERMANS ON THE OTHER. AD HOC GROUP WOULD BE FORMED BUT UNDER FRENCH CHAIR AND WITH CREDITOR CLUB PRECEDURES.

7. DELEGATIONS RETURNED FROM LUNCH BREAK TO DISCUSS ISSUE OF AD HOC GROUP, ITS CHAIR AND ITS MANDATE. AFTER MUCH DRIFT AND AIMLESS DISCUSSION, THE LUNCH BREAK COMPROMISE WAS ACCEPTED AS THE CONSENSUS OF THE INFORMAL GROUP. ATTENTION THEN TURNED TO A MANDATE DRAFTED BY THE SECRETARIAT WHICH ALL MAJOR CREDITORS FOUND UNACCEPTABLE. ON U.S. SUGGESTION THE MEETING RECESSED FOR A SHORT CORNER DRAFTING SESSION ATTENDED BY U.S., U.K., FRANCE, CONFIDENTIAL

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CANADA, AND GERMANY. OTHERS WERE PRESENT BUT DIDN'T SPEAK. AT U.S. SUGGESTION FINAL TEXT AS ACCEPTED BY INFORMAL GROUP WOULD BE GIVEN ONLY DRAFT STATUS FOR FOUR REASONS. FIRST, INFORMAL GROUP WAS NOT THE CONSORTIUM AND COULDN'T ACCEPT THE MANDATE AS FINAL. SECONDLY, THE MANDATE AS DRAFTED ASSUMES AN ACTION BY THE TURKISH GOVERNMENT (SECOND PREAMBULAR PARAGRAPH) WHICH MIGHT NEED CORRECTING. THIRD, THE TURKISH GOVERNMENT MAY WELL HAVE COMMENTS THAT MIGHT BE GERMANE AND FOURTHLY, IF THE DOCUMENT LEAKED IT COULD BE DISCOUNTED AS A DRAFT. MANDATE WAS ACCEPTED BY DELEGATIONS AS THE DRAFT TO BE CONSIDERED BY FULL CONSORTIUM AT MEETING TO BE HELD ON MAY 17.

8. TEXT OF DRAFT MANDATE FOR AD HOC GROUP FOLLOWS:

BEGIN TEXT

AD HOC GROUP ON TURKEY'S FOREIGN DEBT

THE MEMBERS OF THE CONSORTIUM

- RECOGNIZING TURKEY'S FOREIGN DEBT SITUATION AND ACUTE BALANCE-OF-PAYMENTS DIFFICULTIES,
- HAVING REGARD TO THE TURKISH AUTHORITIES' REQUEST TO THE OECD TO CONSIDER RESTRUCTURING THEIR FOREIGN DEBT,

DECIDE

TO ESTABLISH AN AD HOC GROUP, OPEN TO ALL OECD MEMBER COUNTRIES, UNDER THE CHAIRMANSHIP OF FRANCE, TO CONSIDER TURKEY'S FOREIGN DEBT WITH THE OBJECTIVE OF NEGOTIATING AND CONCLUDING A MUTUALLY ACCEPTABLE AGREEMENT UNDER ESTABLISHED CREDITOR CLUB PROCEDURES.

END TEXT.

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9. THE TEXT HAS A NUMBER OF SUBTLETIES THAT REFLECT ITS FRAGILE NATURE AND THE DIFFICULTIES IN CONSTRUCTING IT. FIRST IT SHOULD BE NOTED THAT THE MEMBERS OF THE CONSORTIUM AND NOT THE CONSORTIUM ITSELF THAT ARE MAKING THIS DECISION. THIS IS A DECISION OF INDIVIDUAL COUNTRIES. SECONDLY, THE APPEARANCE OF THE WORD "ACUTE" IN THE FIRST PREAMBULAR PARAGRAPH TIES THE TURKISH SITUATION TO THE FIRST HALF OF THE U.S./EC DEBT FEATURES PAPER. THIRD, THE SECOND PREAMBULAR PARAGRAPH RECOGNIZES THE AGREED POSITION IN THE UNCTAD DEBT MINISTERIAL OF MARCH 1978 THAT DEBT RESCHEDULING ARE DONE ONLY AT THE REQUEST OF THE DEBTOR COUNTRY. FOURTH, IN THE DECISION, A NEW AND SEPARATE GROUP IS ESTABLISHED TO DEAL WITH TURKEY'S FOREIGN DEBT. THE IDEA OF DISGUIISING THE ACTION UNDER AN OLD FINANCIAL SUBCOMMITTEE WAS REJECTED. FIFTH, THE PHRASE THAT THE AD HOC GROUP IS OPEN TO ALL OECD MEMBERS MEANS THAT JAPAN MAY JOIN EVEN THOUGH IT IS NOT A CONSORTIUM MEMBER. SIXTH, THE WORD CONCLUDING IN THE PHRASE "NEGOTIATING AND INCLUDING" MEANS THAT THERE IS NO APPEAL OF THE AD HOC GROUP'S NEGOTIATIONS TO THE FULL CONSORTIUM. SEVENTH, THE PHRASES "UNDER THE CHAIRMANSHIP OF FRANCE" AND " UNDER ESTABLISHED CREDITOR CLUB RULES" MAKE QUITE BLATANT THE FRENCH, BRITISH, AND CANADIAN POSITIONS. U.S. OBJECTED TO CHAIR-

MANSHIP CLAUSE ON THE BASIS THAT IT TOO DIRECTLY PIERCED THE VEIL OF THE CONSORTIUM COVERING A PARIS CLUB MECHANISM AND COULD EASILY BE AN UNDERSTANDING ASSUMED UNDER THE "CREDITOR CLUB'S PROCEDURE" PHRASE. FRENCH WANTED FORMALLY TO BE NAMED AND U.K. WANTED TO BE EXPLICIT AS POSSIBLE ON ALL POINTS REFLECTING THEIR FEARS OF A HARD BARGAINING GOT. THE CREDITOR CLUB PHRASE ALSO MEANS THAT NEGOTIATIONS WILL BE OVER GOVERNMENT OWED OR GOVERNMENT CONFIDENTIAL

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GUARANTEED OEBT WITH CAVEATS AS NOTED IN NEXT PARAGRAPH.

10. TWO CAVEATS WERE MADE TO THE PHRASE "ESTABLISHED PARIS CLUB PROCEDURES." THE CANADIAN DELEGATION MADE THE FORMAL INTERVENTION THAT HIS COUNTRY WAS ONLY AGREEING WITH THE CONSENSUS ON THE UNDERSTANDING THAT THE PHRASE DID NOT PRECLUDE THE POSSIBILITY OF RESCHEDULING DEBTS OF LESS THAN ONE YEAR. THERE WAS NO DISAGREEMENT WITH THIS STATEMENT ALTHOUGH THE FRENCH DELEGATION MOANED AUDIBLY, THEY BEING A LARGE SHORT TERM CREDITOR. THE U.K. IN THE CORNER DRAFTING GROUP MADE WELL KNOWN ITS DESIRE TO HAVE THE NEGOTIATIONS CONSIDER DEBT OTHER THAN GOVERNMENT OWED AND GOVERN-

MENT GUARANTEED. THEY WILL INTERPRET THE DECISION PHRASE "TO CONSIDER TURKEY'S FOREIGN DEBT" TO INCLUDE CERTAIN PRIVATE SECTOR DEBTS. THEY MADE NO FORMAL INTERPRETIVE INTERVENTION BUT SOME AMBIGUITY WILL EXIST BETWEEN THEIR INTERPRETATION OF "FOREIGN DEBT" AND THE "ESTABLISHED CREDITOR CLUB PROCEDURES" PHRASE WHICH WOULD NOT INCLUDE UNGUARANTEED PRIVATE SECTOR DEBT.

11. THERE WAS AN ATTEMPT BY IMF REPRESENTATIVE WOODWARD TO INSERT IN THE PREAMBULAR LANGUAGE THE FOLLOWING PHRASE "--HAVING REGARD ALSO TO THE POLICY UNDERSTANDINGS REACHED WITH THE IMF." THE SUGGESTION WAS STRONGLY SECONDED BY CHAIRMAN GIEL AND LATER DEFENDED RATHER ADAMANTLY BY SECRETARIAT STAFF KOEHN. THE US DELEGATE SPOKE AGAINST THE IDEA ON THE FOLLOWING GROUNDS: ONE, THAT AD HOC GROUP MIGHT LAST MUCH LONGER THAN THE UNDERSTANDINGS THEREBY RISKING A DATED OR EVEN POSSIBLY EMBARRASSING STATEMENT IN THE MANDATE; TWO, THAT THE MEMBERS OF THE CONSORTIUM HAD PASSED FORMALLY ON THESE UNDERSTANDINGS AT THE IMF ON APRIL 24 AND A SECOND PASSAGE WAS NOT NECESSARY; THIRD, THE IMF UNDERSTANDINGS WOULD SURELY BE MENTIONED IN THE NEGOTIATED DOCUMENT AND THEREFORE NEED NOT BE MENTIONED IN THE PUBLIC MANDATE; AND FOURTH, THAT LINKING THE OECD AND THE IMF PUBLICALLY CARRIED THE CONNOTATION THAT THE OECD CONFIDENTIAL

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WAS ATTEMPTING TO PLACE CONDITIONS ON A MEMBER COUNTRY. NO OTHER COUNTRY OBJECTED AND BELGIUM SUPPORTED THE CHAIR BUT WOULD NOT DO SO IF CONSENSUS WAS NOT IN SUPPORT. THE CHAIR CONTINUED TO PUSH THE ISSUE AND THE U.S. TOOK A FORMAL RESERVATION. UK AND FRANCE SUPPORTED PRIVATELY BUT DID NOT INTERVENE THINKING U.S. RESERVATION KILLED THE IDEA. AT TERMINATION OF MEETING U.S. DELEGATION WAS INFORMED THAT CHAIR HAD RULED THAT THE IMF PHRASING WAS TO BE INCLUDED. A STRONG PRESENTATION WAS MADE TO THE CHAIR AFTER THE MEETING WITH FRANCE AND THE UK DOING LIKEWISE. BOTH GEIL AND KOEHN INSISTED IT WAS NOW TOO LATE AND NO CHANGE COULD BE MADE. THE SITUATION WAS DEFINITELY ONE OF THE INTERNATIONAL BUREAUCRATS AGAINST THE MEMBER GOVERNMENTS. CHARLES WOOTTON, DEPUTY SECRETARY GENERAL, SPOKE WITH MINISTER KORP LATER FRIDAY EVENING, AND SAID IMF

PHRASING WOULD NOT APPEAR IN THE DRAFT MANDATE. TEXT IN PARAGRAPH 8 REFLECTS THIS CONVERSATION.

12. A SIMILAR INCIDENT OF A OBSTREPEROUS CHAIR OCCURRED IN THE MANDATE DEBATE OVER THE PHRASE "UNDER ESTABLISHED CREDITOR CLUB PROCEDURES." GIEL DID NOT WISH TO ACCEPT THE GROUP CONSENSUS BECAUSE HE KNEW THE PHRASE WOULD SERIOUSLY UPSET THE GOT. HE SUGGESTED NUMEROUS REPHRASINGS,

NONE OF WHICH WERE ACCEPTED BY THE GROUP. FINALLY, THE US DELEGATE INTERVENED SAYING HE BELIEVED THE ARGUMENTS BEING MADE IN OPPOSITION TO THE PHRASE COULD BEST BE MADE BY THE GOT ON MAY 17. GIEL LATER APOLOGIZED TO THE MEETINGS ON HIS STRONG ADVOCACY OF TURKISH POSITIONS, EXPLAINING THAT HE FELT IT PART OF HIS JOB TO PROVIDE A BRIDGE OF UNDERSTANDING AND THAT HE REPRESENTED THE VIEWS OF OTHER CONSORTIUM MEMBERS WHEN HE SPOKE WITH THE GOT.

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13. THE FRENCH MAY ASK FOR INFORMAL MEETING OF MAJOR CREDITORS ON MAY 16 TO DETERMINE WHAT FLEXIBILITY IN POSITIONS MAY BE POSSIBLE ON DEBT RESCHEDULING. DELEGATIONS AGREED THAT FULL CONSORTIUM MEETING ON MAY 17 SHOULD BE CONCLUDED IN MORNING TO ALLOW AD HOC GROUP TO HOLD FIRST SESSION IN AFTERNOON. HOWEVER, DELEGATIONS ALSO AGREED TO LEAVE DETAILS OF THESE ARRANGEMENTS TO BE DECIDED BY CONSORTIUM CHAIRMAN AND CHAIRMAN OF AD HOC GROUP. CONSORTIUM CHAIRMAN PROPOSED FULL CONSORTIUM MEETING A COUPLE OF WEEKS LATER TO RECEIVE REPORT OF NEGOTIATIONS, BUT HIS PROPOSAL WAS NOT ACCEPTED. IN GENERAL, DELEGATIONS OPPOSED IDEA OF HAVING THE AD HOC GROUP REPORT BACK TO ANY BODY. HOWEVER, WOOTTON STATED THAT IT IS NECESSARY IN THE OECD THAT SUBGROUPS OF ANY KIND MUST REPORT BACK TO THE FULL GROUP (I.E. CONSORTIUM). HE SAID THE FULL GROUP ONLY HAS TO TAKE NOTE OF THE ACTION. THIS FORMULATION SEEMED GENERALLY ACCEPTABLE. CONSENSUS WAS NOT CLEAR ON WHEN SESSION WOULD BE HELD BUT U.S. EXPRESSED VIEW THAT IT SHOULD BE DONE IMMEDIATELY AFTER THE CONCLUSION OF NEGOTIATIONS IN THE SUBGROUP, PREFERABLY MAY 19 OR 20.

14. NO DISCUSSION TOOK PLACE IN APRIL 28 MEETING ON SUBJECT OF LONG TERM ROLE OF OECD CONSORTIUM.

15. KORP, IN TELCON TO MEISSNER IN WASHINGTON ON SUNDAY, APRIL 30, RELAYED CONTENT OF SECOND DISCUSSION WITH WOOTTON. WOOTTON SAID THAT INITIAL TURKISH REACTION TO DRAFT MANDATE WAS THAT IT WAS UNACCEPTABLE. THEY WERE SO DISTURBED, ACCORDING TO WOOTTON, THAT THEY WERE GOING TO HAVE FINANCE MINISTER MUEZZINGLU BRING THE ISSUE UP IN BILATERALS AT THE IMF MEETINGS IN MEXICO CITY. GOT

SPECIFICALLY REJECTED THE FRENCH CHAIRMANSHIP AND THE REFERENCE TO CREDITOR CLUB PROCEDURES. AS OF FRIDAY AFTERNOON, THE FRENCH AND BRITISH DELEGATIONS CONSIDERED THE DRAFT MANDATE NON-NEGOTIABLE.

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16. NORWEGIANS ANNOUNCED THAT THEY WERE CANCELING 17 MILLION KRONER OF PRINCIPAL ON OLD AID DEBTS WITH TURKEY AND EXTENDING NEW EXPORT CREDITS. NEWS WAS TAKEN IN TOTAL SILENCE BY OTHER DELEGATIONS. ALSO NORWEGIANS OPENING BILATERAL COMMISSION WITH TURKEY TO PROMOTE COMMERCIAL CONTACT. FIRST MEETING WILL BE IN EARLY JUNE.

17. COMMENTS: WORK WITH OTHER DELEGATIONS WENT VERY WELL. OTHER MAJOR CREDITORS ALL PROVIDED DEBT EXPERTS WHO HAD WORKED TOGETHER IN PREVIOUS PARIS CLUBS, UNCTAD, OR BOTH. MAJOR PROBLEMS EXISTED WITH DELEGATIONS REPRESENTED FROM OECD MISSIONS WHO KNEW LITTLE OR NOTHING OF DEBT RENEGOTIATIONS, PARIS CLUB, OR UNCTAD. TYPICAL OF THIS BREED WERE THE BELGIAN AND DUTCH REPRESENTATIVES WHO, HEARING OF OUR APRIL 26 CAUCUS OF MAJOR CREDITORS, INSISTED THAT THEY MUST BE INCLUDED. THEY ARRIVED WITHOUT POSITIONS AND WITHOUT KNOWLEDGE BUT WITH NUMEROUS PERSONAL OBSERVATIONS THAT DESTROYED CONSENSUS AND THE CONTINUITY OF DISCUSSIONS. ADDRESSEES SHOULD ENCOURAGE OTHER GOVERNMENTS TO SEND FINANCIAL EXPERTS TO MAY MEETING IF EXPERTISE DOES NOT EXIST IN THEIR OECD MISSIONS.

18. A MORE SERIOUS PROBLEM IS CHAIRMAN GIEL. ASIDE FROM SUFFERING FROM "CLIENTITIS" HE RAN AN EXTREMELY POOR MEETING. HE WAS UNABLE TO GUIDE THE WORK OF THE COMMITTEE AND CONSTANTLY FAILED TO UNDERSTAND WHEN DEBATE HAD ENDED AND A SUMMARY WAS NEEDED. AS A RESULT CONSENSUS WAS EXTREMELY DIFFICULT TO REACH AND VERY LONG IN COMING. IN HIS OPENING REMARKS HE PUBLICALLY CITED THE MAJOR CREDITOR CAUCUS OF THE PREVIOUS DAY AND ASKED WHAT DECISIONS MIGHT HAVE BEEN REACHED. THE COMMENT NEEDLESSLY EMBARRASSED THOSE WHO ATTENDED AND MADE OTHERS BELIEVE THEY HAD BEEN EXCLUDED

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FROM SOME SPECIAL MEETING. AFTER FRIDAY'S MEETING ALL MAJOR DELEGATIONS WERE RELIEVED THAT THE DEBT RESCHEDULING EXERCISE WAS TO BE IN THE HANDS OF ANOTHER CHAIR. THE PROBLEM STILL REMAINS WHETHER GIEL HAS THE CAPACITY TO HANDLE THE VERY SENSITIVE AND CRITICAL SCENARIO OF PSYCHOLOGICAL CONFIDENCE BUILDING THE CONSORTIUM MUST TAKE THIS FALL. HIS TERM OF OFFICE EXPIRES IN SEPTEMBER. WHETHER HE CONTINUES SHOULD BE A MATTER OF THOUGHTFUL REVIEW.

19. FOR PARIS: FRENCH DELEGATION INFORMED US THAT FRENCH CHAIR FOR AD HOC GROUP WILL BE M.CANDESSUS, DIRECTOR OF

FINANCE. M. PEBERAU HAS BEEN PROMOTED TO DIRECTEUR DE CABINET TO NEW ECONOMICS MINISTER AND WILL NOT BE AVAILABLE. HE WILL NOT BE IMMEDIATELY REPLACED IF AT ALL. M. CANDESSUS WILL BECOME THE HEAD OF THE INTERNATIONAL SECTION OF THE ECONOMIC MINISTRY AND THE PRESENT INCUMBENT WILL REPLACE LARROSIER WHEN HE DEPARTS FOR HIS IMF POSITION THIS SUMMER. WITH THE EXCEPTION OF THE PEBERAU APPOINTMENT, THESE SHIFTS ARE NOT PUBLICALLY KNOWN AND SHOULD NOT BE DISCLOSED. THE CANDESSUS CHAIRMANSHIP MEANS A RANK UP GRADING TO THE ROUGH EQUIVALENT OF AN ASSISTANT SECRETARY LEVEL. THIS WILL ALSO HOLD TRUE FOR FUTURE PARIS CLUB MEETINGS. PAST CHAIRMEN WERE AT DEPUTY ASST-SECRETARY LEVEL. CHRISTOPHER

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